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**PERSONAL INCOME TAX STRUCTURE IN INDIA: AN EVALUATION**

**ARTI KUMARI**  
**ASST. PROFESSOR**  
**DAV CENTENARY COLLEGE**  
**NIT FARIDABAD**

**ABSTRACT**

*In the present paper an attempt has been made to throw light on prevailing personal income tax structure in India. The paper briefly analyses the issues relating to high tax burden on people falling under low and medium income groups. Researcher concludes that there is still a need to bring more reforms in the personal income tax structure in the form of broadening the exemption limits, lowering the tax rates, reorganizing the different income tax slabs and simplify overall tax procedure so that people could be encouraged for compliance of tax laws.*

**KEYWORDS**

Structure, Slabs, Reorganizing, Exemptions, Broadening.

**INTRODUCTION**

As per Income Tax Act 1961, every person (Individuals, Companies, Hindu undivided families, Firms, Cooperative Societies and all other artificial judicial persons) whose total income exceeds maximum exemption limit is liable to pay income tax at the rates prescribed in the act. It is not a voluntary payment but an enforced contribution that is why tax is known as financial charge or levy. Despite the fact that money provided by taxation is used to carry out many functions for the welfare of the society, it usually gives a feeling of displeasure to tax payee. Actually, tax payer does not want that his hard core earned money should be taken away from him. History is witness that there is always a struggle between tax payer and tax collector. This may be due to the irrational structure of Personal Income tax. The tax rates, tax base and tax slabs in Personal Income Tax schedule were exorbitantly higher by any standards during the period under review. The need for rationalization of tax structure was felt long back but very little reform has been seen so far.

**REVIEW OF LITERATURE**

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in primitive and ancient communities. (IT circular, 2010). India has a tax charter with three-tier federal structure (Union, state governments. & local bodies). (Bernardi, 2005) The rapid changes in administration of direct taxes, during the last decades, reflect the history of socio-economic thinking in India. (CBDT report, 2009) Governments use different kinds of taxes and vary tax rates because taxes are one of the significant sources of revenue. (Asia trade hub .com) Quite apart from its role of raising revenue, the personal income tax has long been regarded as a potent weapon of effecting distributive justice (Nayak, 1989). Secondly, it is an instrument of equity, social justice and income distribution. (Sahota, 1961) Another common and most empirically used way to understand its role is the ratio of personal income tax to total tax revenue and national income. (Agarwal, 1991) A good tax system is characterized by a high responsiveness of tax revenue to changes in income of public bodies or national income; the technique of measuring this response is tax elasticity and tax buoyancy. Tax policy forms an important part of development process in a developing economy. The total tax revenue is dependent upon three variables viz., tax rate, tax base, and national income. (Ankita, 2009) Tax reforms sometime bring changes in taxation system. A tax payer sometime finds it difficult to understand whether change in tax liability is due to legislative change in the federal tax code or shift in his or her own circumstance. (Troyet all) There has been change in Personal income tax rates, tax brackets and rate of surcharges from time to time. As rates remained stable since 1997–98, at 10, 20, and 30%, with some changes in the associated tax brackets. A surcharge of 5 % of the income tax payable was imposed in 2002–03 in the wake of the Kargil war and was discontinued the following year. It was replaced, however, with a separate 10 % surcharge imposed on all taxpayers with taxable incomes above ₹ 850,000; the level was raised to ₹ 1million in the 2005–06 budgets. (Raoen all)

**OBJECTIVES OF THE STUDY**

The objectives of the study are:

1. To measure the trend of personal income tax structure in India.
2. To determine the present scenario and future prospects of prevailing income tax structure.
3. To suggest suitable measures for rational personal income tax scheme.

**LIMITATIONS AND SCOPE OF THE STUDY**

Personal income tax in India may be said to consist of taxes on the non-agricultural incomes of three types of assesses: Individuals, Hindu Undivided families, unregistered firms and other associations of persons. However, present study is confined only to general tax payers. Hence, there is further scope of study.

**RESEARCH METHODOLOGY**

Present study is descriptive and exploratory in nature. Here researcher has taken 15 financial years (2000-2001 to 2014- 2015) personal income tax rate and calculated tax burden accordingly. Various books on direct taxes, indirect taxes, public finance, circulars of CBDT, reports in newspapers, research papers in journals and magazines, statistics based on various issues of economic survey of Govt. of India, various internet sites, and other relevant literature were consulted. Guidance of the experts in the field and view of public is also considered for carrying out the study. Present study has passed through the following stages:

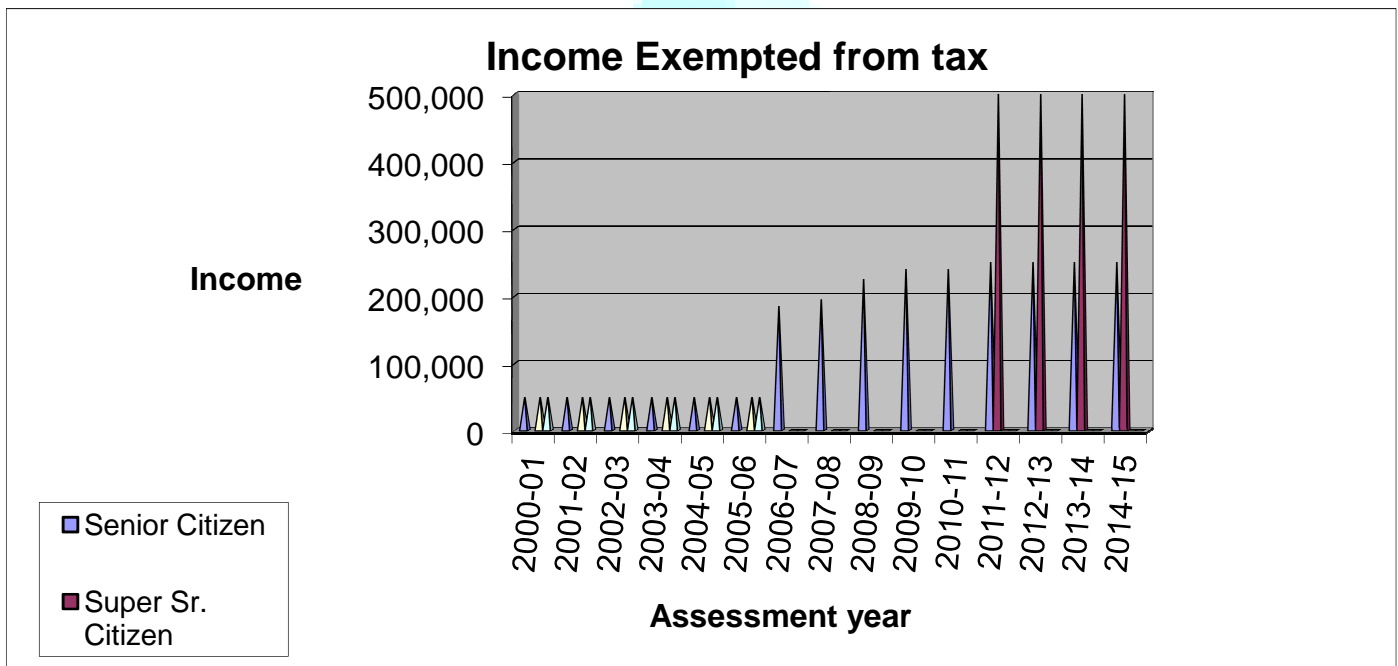
1. Composition and comparative analysis of income exempted from tax.
2. Composition of total tax liability of general tax payer for period under review.
3. Composition of growth rate of tax burden.
4. Composition of tax liability on different income slabs.
5. Conclusion and suggestions.

**COMPOSITION AND COMPARATIVE ANALYSIS OF INCOME EXEMPTED FROM TAX**

**Table1** under reference depicts tax free income of male, female and senior citizen. Study shows that exemption limit remained constant for first six financial years under review, despites raising cost of living and additional requirement for better life. Although the increased proportion of tax free income thereafter is significant but the pace has not been in consonance with raising prices all around.

TABLE 1: TAX FREE INCOME FOR MALE, FEMALE, SENIOR CITIZEN AND SUPER SENIOR CITIZEN

Assesment Year	Male	Female	Senior Citizen	Super Sr. Citizen
2000-01	50,000	50,000	50,000	---
2001-02	50,000	50,000	50,000	---
2002-03	50,000	50,000	50,000	---
2003-04	50,000	50,000	50,000	---
2004-05	50,000	50,000	50,000	---
2005-06	50,000	50,000	50,000	---
2006-07	1,00,000	1,35,000	185,000	---
2007-08	1,10,000	1,45,000	195,000	---
2008-09	1,50,000	1,80,000	225,000	---
2009-10	1,60,000	1,90,000	240,000	---
2010-11	1,60,000	1,90,000	240,000	---
2011-12	1,80,000	1,90,000	250,000	500,000
2012-13	1,80,000	1,90,000	250,000	500,000
2013-14	2,00,000	2,00,000	250,000	500,000
2014-15	2,00,000	2,00,000	250,000	500,000



In the year 2011-12, a new category called "Very senior citizen" has been added for people above 80 years. Now we have two types of senior citizens "Senior citizen" up to 60 years of age and "Very senior citizen in the age of 80 year or above. The threshold limit of income exempted from tax for newly created category of assesses is ` 500,000, thereafter they have to pay tax according to prevailing tax rates. Interesting point here is that higher the amount of income exempted from tax, lower the number of individual who will fall in the last category





2. COMPOSITION OF TOTAL TAX LIABILITY OF GENERAL TAX PAYER FOR PERIOD UNDER REVIEW

TABLE 2: TREND OF TAX RATES AND TAX LIABILITY FOR GENERAL TAX PAYERS

Assessment year	Income	Rate	liability	Income	Rate	Liability	Income	Rate	Liability
2000-01	50,001 to 60,000	10%	1,000	60,001 to 1,50,000	20%	18,000	1,50,001 to 11,00,000	30%	285000
2001-02	50,001 to 60,000	10%	1,000	60,001 to 1,50,000	20%	18,000	1,50,001 to 11,00,000	30%	285000
2002-03	50,001 to 60,000	10%	1,000	60,001 to 1,50,000	20%	18,000	1,50,001 to 11,00,000	30%	285000
2003-04	50,001 to 60,000	10%	1,000	60,001 to 1,50,000	20%	18,000	1,50,001 to 11,00,000	30%	285000
2004-05	50,001 to 60,000	10%	1,000	60,001 to 1,50,000	20%	18,000	1,50,001 to 11,00,000	30%	285000
2005-06	100,001 to 1,50,000	10%	5,000	1,50,001 to 2,50,000	20%	20,000	2,50,001 to 11,00,000	30%	255000
2006-07	100,001 to 1,50,000	10%	5,000	1,50,001 to 2,50,000	20%	20,000	2,50,001 to 11,00,000	30%	255000
2007-08	100,001 to 1,50,000	10%	4,000	3,00,000 to 5,00,000	20%	20,000	2,50,001 to 11,00,000	30%	255000
2008-09	1,50,001 to 3,00,000	10%	15,000	3,00,000 to 5,00,000	20%	40,000	5,00,001 to 11,00,000	30%	180000
2009-10	1,60,001 to 5,00,000	10%	14,000	5,00,001 to 8,00,000	20%	40,000	5,00,001 to 11,00,000	30%	180000
2010-11	1,60,001 to 5,00,000	10%	34,000	5,00,001 to 8,00,000	20%	60,000	8,00,001 to 11,00,000	30%	90000
2011-12	1,80,000 to 5,00,000	10%	32,000	5,00,001 to 8,00,000	20%	60,000	8,00,001 to 11,00,000	30%	90000
2012-13	1,80,000 to 5,00,000	10%	32,000	5,00,001 to 8,00,000	20%	60,000	8,00,001 to 11,00,000	30%	90000
2013-14	2,00,001 to 5,00,000	10%	30,000	5,00,001 to 10,00,000	20%	80,000	10,00,001 to 11,00,000	30%	30000
2014-15	2,00,001 to 5,00,000	10%	30,000	5,00,001 to 10,00,000	20%	80,000	10,00,001 to 11,00,000	30%	30000

Composition of total personal income tax liability (tax on all the three slabs in each financial year) of individual tax payer from FY 2000-01 to 2014-15 is shown in table 2. Here taxable income up to 1100000 is taken into consideration and tax load on each slab is calculated accordingly. Tax liability on first income bracket varies between `1000 to `30000 for entire period under review. In case of second income bracket, it is 18,000 in 2000-2001 and 80000 in 2014-15. Surprisingly, in case of third income bracket, liability is maximum in the beginning (285000) and minimum in the end (30000). However, total tax load is showing decreasing trend but this is one side of the coin because those who fall in the third income bracket are people with high income level. Increasing trend of tax load in case of first and second income slabs during the period under review indicates that those who fall in the low and medium income group are highly taxed than their counterparts who are in the third income bracket. Furthermore, the growth rate of total tax load, which is given in table 3, varies between 27.64% to 12.73% between 2000-01 to 2014-15. Keeping in view the growth rate of taxes on first and second income groups there is ample justification to say that there is need to bring reform in prevailing personal income tax structure in the form of lower tax rates. Due to inflationary tendency in the country, those who fall in tax bracket feel double snag, which can affect adversely their sustainability on the one hand, and willingness to contribute for tax payments on the other.

COMPOSITION OF GROWTH RATE OF TAX BURDEN FROM 2000-2014

TABLE 3: GROWTH RATE OF TAX LIABILITY (2000-01 TO 2014-15)

Financial year	Tax Load on First slab	Tax load in Second slab	Tax load in Third slab	Total tax load	Total Taxable income	Tax liability (in %)
2000-01	1,000	18,000	285,000	304,000	1,100,000	27.64
2001-02	1,000	18,000	285,000	304,000	1,100,000	27.64
2002-03	1,000	18,000	285,000	304,000	1,100,000	27.64
2003-04	1,000	18,000	285,000	304,000	1,100,000	27.64
2004-05	1,000	18,000	285,000	304,000	1,100,000	27.64
2005-06	5,000	20,000	255,000	280,000	1,100,000	25.45
2006-07	5,000	20,000	255,000	280,000	1,100,000	25.45
2007-08	4,000	20,000	255,000	279,000	1,100,000	25.36
2008-09	15,000	40,000	180,000	235,000	1,100,000	21.36
2009-10	14,000	40,000	180,000	234,000	1,100,000	21.27
2010-11	34,000	60,000	90,000	184,000	1,100,000	16.73
2011-12	32,000	60,000	90,000	182,000	1,100,000	16.55
2012-13	32,000	60,000	90,000	182,000	1,100,000	16.55
2013-14	30,000	80,000	30,000	140,000	1,100,000	12.73
2014-15	30,000	80,000	30,000	140,000	1,100,000	12.73

Source: Data compiled from information given in table 2

Composition of tax liability on different slabs for the period under review In this section, the researcher has calculated tax load on different slabs, which is shown in table 4, and their growth rates in corresponding tables. Though time to time composition of sum covered, in different tax, slabs have been changed but by and large in our country people fall in first two slabs according to their income labels and they are known as Aam Adami. Tax burden on different slabs gives us a different picture and this is virtually a clear position because those assesses whose incomes cover all the three slabs are people with high income level and those who fall in first and second tax brackets are middle income group people.

TABLE 4: TAX WEIGHT ON GENERAL TAX PAYER OF DIFFERENT SLABS

Assessment year	Tax Burden on First Slab	Tax burden on second Slab	Tax burden on Third Slab	Assessment year	Tax Burden on First Slab
2000-05	1000	18000	285000	2000-05	1000
2005-07	5000	20000	255000	2005-07	5000
2007-08	4000	20000	255000	2007-08	4000
2008-09	15000	40000	180000	2008-09	15000
2009-10	14000	40000	180000	2009-10	14000
2010-11	34000	60000	90000	2010-11	34000
2011-13	32000	60000	90000	2011-13	32000
2013-15	30000	80000	30000	2013-15	30000

TABLE 5: TREND OF TAX LOAD ON FIRST SLAB

Assessment year	Growth Rate in %
2000-05	
2005-07	400
2007-08	300
2008-09	1400
2009-10	1300
2010-11	3300
2011-13	3100
2013-15	2900

Source: data in table 4

Tax toll is quite heavy on those who fall in first tax bracket, which is portrayed in the form of corresponding high growth rate in tax burden, in table 5. Continuously higher dose of tax on low income is exposing inverse relationship between incomes earned by assesses and degree of tax imposed on them. Proper care therefore is, needed on the part of tax administration to have low tax liability at lowest level so that people should act in accordance with tax law.

TABLE 6: TREND OF TAX LOAD ON SECOND SLAB

Assessment year	Growth Rate in %
2000-05	
2005-07	66
2007-08	66
2008-09	122
2009-10	122
2010-11	233
2011-13	233
2013-15	344

Source: data in table 4

Situation is not much different for those who get under next tax bracket but the only difference in this case is that tax toll is increasing at slightly lesser speed than their counterparts are. Overall tax liability on lower and middle income groups is higher than high earning people in the country, which is the violation of "Equity Principle" of taxation given by Adam Smith. An important task, therefore, before tax administration is to design the rate schedule that should be equitable and efficient otherwise people will start following unethical practice in the form of tax evasion, which could have negative impact in the growth story of the country.

TABLE 7: TREND OF TAX LOAD ON THIRD SLAB

Assessment year	Growth Rate in %
2000-05	
2005-07	-11
2007-08	-11
2008-09	-37
2009-10	-37
2010-11	-68
2011-13	-68
2013-15	-89

Comparatively, third tax bracket carries less tax toll than first and second slab. Table 7 under reference depicts that growth in tax burden is -11% in 2000-05 and it has been reduced thereafter up to -89%. Another way to bring reform in personal income tax structure is that number of tax slabs should be few and their range fairly large to minimize the distortion arising out of bracket creep. Findings of many researchers have shown that reduction in tax rate has caused positive impact on tax buoyancy.

## CONCLUSION

Though the payment of tax is a moral obligation and tax payer is aware about the fact that revenue generated by government through taxes is used for the welfare of the society but due to high personal income tax rates and other irrationalities in prevailing tax constitution, assesses feel bit pinched while contributing toward this noble cause. This situation develops ill feeling toward payment of income tax which results assesses make every attempt to hide their income and avoid tax payments, which is a major setback in economic growth of a country. Need of the hour is to bring reforms in present tax regime by framing tax friendly policies so that those who come under tax trap should willingly come forward and feel pride to pay tax. In order to further bring them into make them feel comfortable Basic exemption limit must be at moderate level. The tax brackets required to be redesigned and tax tariff is needed to be reframed in such a way that high tax should be imposed on high income and lower income should be taxed with lower rates.

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